

HECB RECOMMENDATIONS FOR 1999-2001 HIGHER EDUCATION OPERATING BUDGET

December 1998

OVERVIEW

On September 25 in Olympia, the Higher Education Coordinating Board (HECB) heard presentations from each of the state's public higher education institutions and the community and technical colleges system regarding their individual budget requests for the 1999-2001 biennium. The HECB also heard a presentation from the Office of Financial Management (OFM), which reviewed the fiscal environment the state likely will experience for the 1999-2001 biennium.

The message from OFM was clear: after accommodating the carry-forward costs of providing state support for current services levels there will be little funding left for any other increases in the state budget. Those carry-forward costs include constitutional requirements to serve increasing population demands affecting the K-12 system, and certain caseload requirements of the Department of Social and Health Services (DSHS) and the Department of Corrections.

Against this backdrop, however, total higher education requests for additional funding total \$429.1 million, including \$137.6 million for institution-proposed salary increases and \$105.7 million for enrollment increases.

By statute, the HECB must recommend budget priorities for consideration by the Governor and the Legislature, based on the fiscal priorities for higher education as a whole. The Board established those priorities in budget guidelines, which were adopted last February and transmitted to all institutions. The guidelines are based on the state's higher education goals, objectives, and priorities as well as the Board's comprehensive Master Plan. The task of the Board is to blend these various elements into a constant whole.

Following the September meeting, the Operating Budget Subcommittee met to consider all aspects of the operating budget and formulated its recommendation to the full Board. At its October 28, 1998 meeting, the full Board adopted by resolution the recommendations of the subcommittee. These recommendations group institutional requests into three categories of priorities, each reflecting the funding that is required to meet the purposes set out for each category. The categories identified and the associated funding recommended are:

- **Critical Support Areas (\$261.3 million);**
- **Essential Support Areas (\$97.1 million); and**
- **Other Institutional Priorities (\$70.7 million).**

Delineation of these categories and their component elements are set out in the following pages.

Inherent in the funding of higher education is the amount of tuition that is available to institutions along with state support. State statutes require the Board to recommend tuition and fee levels and policies. The Board's recommendations incorporate into the total budget perspective a tuition increase proposal for the 1999-2001 biennium.

The remainder of this report provides details regarding each of the components discussed above, along with summary tabulations of the funding impact of these recommendations on the individual institutions, and in total for the higher education system.

It would be unrealistic to expect the entire requests of all of the entities making up higher education in the state to be funded by the Legislature, although all of the proposals have merit. Institutions must continue to re-evaluate their current operations relative to proposed new undertakings, in order to reallocate existing levels of support to new, higher priority proposals. While this currently occurs — notably at the University of Washington and its new one percent holdback for its Initiatives Fund, as well as on-going similar efforts at Washington State University — it must be continuous among all institutions at all levels.

Supplemental Budget Options

There remains in the current biennium a limited amount of General Fund expenditure authority. Some of that authority may be available via supplemental budget requests. Such requests generally focus on emergent needs, to cover one-time expenditures, or to accommodate expenditures proposed for next biennium when expenditure authority is expected to be even more severely constrained. This approach in particular could be used to acquire technology enhancements that otherwise might not be funded in the next biennium. As well, this approach would be well suited to provide support for the Distinguished Professorship and the Graduate and Undergraduate Fellowship programs.

State General Fund Overview Current Biennium and 1999-2001 Biennium Projected¹ (dollars in billions)

| | | Percent |
|---|--------------|-----------------|
| | | <u>Of Total</u> |
| 1997-1999 Biennium Appropriations: | | |
| Higher Education | \$ 2.21 | 11.6% |
| All Other Functions | <u>16.87</u> | 88.4% |
| Total Appropriations | \$ 19.08 | |
| 1999-2001 Biennium Projection: | | |
| Estimated Statutory Expenditure Authority | \$ 20.50 | |
| OFM Estimated Maintenance Level Requirement | <u>20.33</u> | |
| Balance | \$ 0.17 | |

¹ Based on OFM projections, September 1998.

DETAIL OF OPERATING BUDGET RECOMMENDATIONS FOR THE 1999-2001 BIENNIUM

FUNDING LEVELS AND PRIORITIES

Maintenance Level Budget

The highest priority recognized in the budget guidelines adopted by the Board is the Maintenance Level Budget to carry forward the current level of services now being provided by the institutions of higher education. The types of costs to be included in this level are established by the Office of Financial Management. This level would carry forward, for a full biennium, the budgeted enrollment levels of the second year of the current biennium. The Maintenance Level also provides for costs related to new facilities coming on line during the next biennium, charges related to implementing the K-20 telecommunications system during the current biennium, and estimated inflation for the non-salary related items in the institutional budgets.

Critical Support: \$261.3 million

Consistent with the adopted guidelines, the next highest priorities recognized by the Board for support are access and quality. These have been characterized as **Critical Support** areas to meet the costs of enrolling more students in the coming biennium, and to address flagging faculty salary levels. In terms of access, the proposed budget includes all of the institutional requests for **increased enrollment** to meet the anticipated increase in demand for higher education services. It also includes the Board's proposed **increase for financial aid** to make access more affordable for the economically disadvantaged.

The highest priority quality dimension of the Board's proposal is the need for **faculty salary increases**. If the state is to maintain and attract high quality faculty, institutions must be able to compete in the national marketplace for that faculty. In concert with the institutions' coordinated request, funding for faculty salary increases averaging **4.5 percent per year** are proposed. Further details of the salary increase proposal are contained in a following section of this paper.

In total, adding these critical elements to the current state support for higher education results in a **proposed critical support level from the General Fund that is \$192.3 million above the maintenance level budget**. This amount, coupled with increased tuition revenue from increased enrollment and proposed new tuition rates (both discussed further on in this paper), would provide a **funding level totaling \$261.3 million** toward support of the Board's priorities.

To meet the costs associated with the Critical Support areas it is proposed that tuition rates be increased by **4.0 percent** in the first year of the biennium and a further **3.2 percent** in the second year. These percentages are the projected three year averages for increases in **Per Capita Personal Income** in the state, and are felt to reflect an increased "ability to pay" on the part of

students and their families. Tuition revenue generated by the proposed enrollment increase would be \$24.3 million and by the increased tuition rates, \$44.7 million, for total increased tuition support of \$69.0 million. The balance of needed funding for the recommended budget increases would come from the State General Fund.

Essential Support: \$97.1 million

In addition to the critical support areas described above, there are institutional requests for support that are essential if the state is to sustain its efforts to provide a high quality education for students. These requests include additional salary-related items and a significant increase required for instructional technology. These areas are considered by the Board to be essential for a state higher education system that meets state needs of the future. These requests comprise the “**Essential Support**” category of priorities.

It is essential that the state have faculty salary structures that ensure a steady flow of high quality faculty to state institutions; support for the requested items will help make that possible. It is also essential that the state’s higher education institutions are able to **use and teach the technologies** that are becoming a greater part of everyone’s lives. This is important for workforce needs as well as personal. To meet these salary and technology needs requires **\$97.1 million**.

Other Institutional Priorities: \$70.7 million

Two-percent “Local Option” Tuition Flexibility.

The Board recognizes there are other meritorious requests within institutionally-established priorities. The Board does not propose to rank these against one another, in an institution-against-institution array. Instead it proposes that each institution/system be provided authority to **increase tuition by up to an additional 2 percent per year**. This would allow each institution to address the needs it deems most important in this category. And this flexibility would provide a funding alternative for needs that the Legislature may not otherwise fund.

Further, this category includes some spending proposals that would not be appropriately funded from student tuition, but which should only be considered for support from the State General Fund. These include the various research and public service proposals of the institutions and the Distinguished Professorships and Graduate and Undergraduate Fellowship proposals of the HECB.

It is not the intent of the Board that optional tuition increases become a perpetual part of the base tuition rate for institutions. Rather, they **would not carry over at the end of each biennium** unless re-adopted by an institution/system. Further, as the Board implements tuition-indexed financial aid, institutions would be required to use some of the proceeds from the optional tuition revenue to **maintain the full tuition value of the financial aid** being received by eligible public students. Institutions would be required to **report on the use** of optional tuition revenue as part of the budget process each biennium.

The table on the following page depicts, **in summary, the HECB recommendations of fiscal priorities** for higher education in Washington for consideration by the Governor and the Legislature.

Following the summary table are additional sections of this paper discussing in more detail the HECB proposals for enrollment increases in the 1999-2001 biennium, financial aid increases, the faculty salary proposal, and the tuition proposal. Last is a section (Appendix B) listing, by institution, the Board priorities as they relate to the individual institutional requests.

**RECOMMENDED
HIGHER EDUCATION BUDGET PRIORITIES
FOR THE 1999 - 2001 BIENNIUM**

State General Fund and Tuition Accounts

(dollars in millions)

| | | :: | <u>sources of funds</u> | |
|--|----------------|------|-------------------------|-----------------|
| | | :: | State | |
| | Total | :: | General | Tuition |
| | <u>Funding</u> | :: | <u>Fund</u> | <u>Accounts</u> |
| | | :: | | |
| MAINTENANCE LEVEL BUDGET: | 3,040.2 | :: | 2,302.2 | 737.9 |
| (OFM determined) | | :: | | |
| | | :: | | |
| PROPOSED INCREASES ABOVE MAINTENANCE LEVEL: | | :: | | |
| | | :: | | |
| CRITICAL SUPPORT AREAS: | | :: | | |
| Enrollment | 105.7 | :: | | |
| Financial Aid | 49.0 | * :: | | |
| Faculty salary increases to 4.5% per year | 106.6 | :: | | |
| | | :: | | |
| SUBTOTAL - CSA | 261.3 | :: | 192.3 | 69.0 ** |
| | | :: | | |
| ESSENTIAL SUPPORT AREAS: | | :: | | |
| Recruitment and retention (salaries enhance.) | 8.0 | :: | 8.0 | |
| SBCTC salary issues (increments) | 5.0 | :: | 5.0 | |
| SBCTC part-time salary issues | 18.0 | :: | 18.0 | |
| Instructionally-related technology | 63.4 | :: | 63.4 | |
| Facilities and Services | 2.7 | :: | 2.7 | |
| SUBTOTAL - ESA | 97.1 | :: | 97.1 | |
| | | :: | | |
| Undesignated 2% per year optional tuition support | | :: | | 23.0 |
| | | :: | | |
| OTHER INSTITUTIONAL PRIORITIES: | | :: | | |
| Basic Skills Enhancement | 6.4 | :: | 6.4 | |
| Diversity | 1.1 | :: | 1.1 | |
| Enhance Undergraduate Education | 5.3 | :: | 5.3 | |
| Facilities and Services | 4.6 | :: | 4.6 | |
| Pierce College | 2.0 | :: | 2.0 | |
| Planning and Coordination | 0.2 | :: | 0.2 | |
| Professorships and Fellowships | 9.0 | :: | 9.0 | |
| Research and Service | 8.0 | :: | 8.0 | |
| Student Services | 8.1 | :: | 8.1 | |
| Technology Initiatives | 26.0 | :: | 26.0 | |

* Does not include additional funding associated with projected SNG costs for recommended additional enrollment (\$3.4 million) or for impact of proposed tuition increases (\$10.7 million)

** Tuition associated with enrollment increase (\$24.3 million) and proposed PCPI-related tuition increase of 4.0% and 3.2% (\$44.7 million).

RECOMMENDED ENROLLMENT INCREASES FOR THE 1999-2001 BIENNIUM

In its Master Plan, the Board sets forth the importance of a long-term commitment to enhancing access to higher education through steadily increasing enrollment. In addition to recognition of the impact of the “baby-boom echo” and the resulting college-age population growth, the Board recognized increased workforce training needs and the expressed aspirations of citizens for more postsecondary education. As a result, in the Master Plan the HECB anticipated the need for an increased participation rate.

During recent legislative sessions, the Legislature has substantially increased enrollments to make progress toward Master Plan goals. Budgeted enrollment over the past two biennia has increased from 186,112 FTEs in FY1995 to 200,528 FTEs in FY1999. In comparison, the Master Plan projected a need for 203,818 FTEs in FY1999, resulting in a gap between the anticipated enrollment need and of those budgeted of less than two percent (3,290 FTEs).

If approved, the proposed enrollment increases for the 1999-2001 biennium would keep budgeted enrollment within one percent of the Master Plan projected level for that period. Such increases would reiterate a commitment to a planned program to meet increasing enrollment needs. For FY2000 the Master Plan projects a need for 207,905 FTEs; institutions have requested 204,615 FTEs. For FY2001 the trend continues with a projected plan enrollment of 212,218 FTEs and institutional requests of 210,167 FTEs. By the end of the biennium the gap between the plan and budgeted enrollment will be 2,051 FTEs. To the extent that institutions continue to over-enroll in some areas, the actual gap may be even less.

It should be noted the proposed enrollment for the North Snohomish, Island and Skagit Counties (NSIS) Consortium are included in the total enrollment proposed for next biennium. As well, WSU’s proposal for additional enrollment in Spokane, including the Health Sciences Consortium, is in the recommendation for enrollment increases.

Chart 1 on the following page depicts the relationship between the Master Plan projected total enrollment needs compared to the current budgeted and institutional request levels. Table 1 indicates the distribution of these enrollment levels by institution and branch, and the incremental enrollment increases requested.

Based on a review of the effect of institutional requests on the system and on individual institutions, the requests are considered consistent with the Master Plan and evidence an ability and commitment to meet the future needs of the state. The Board, therefore, recommends support for the level of enrollment as requested by the institutions for the 1999-2001 biennium.

As proposed by the institutions, the total cost of the increased enrollment would be \$105.7 million, of which \$81.4 million would be from the State General Fund and the balance, \$24.3 million, would come from tuition revenue generated by the new enrollment.

CHART 1**1999-2001 ENROLLMENT PROJECTIONS**

Comparison of HECB Master Plan to Institutional Requests

| | 1999 | 2000 Projected | 2001 Projected | 2002 Projected |
|------------------------|---------|-------------------|-------------------|-------------------|
| Current Budget | 200,528 | | | |
| HECB Master Plan | 203,818 | 207,905 | 212,218 | 216,587 |
| Institutional Requests | | 204,615 | 210,167 | |

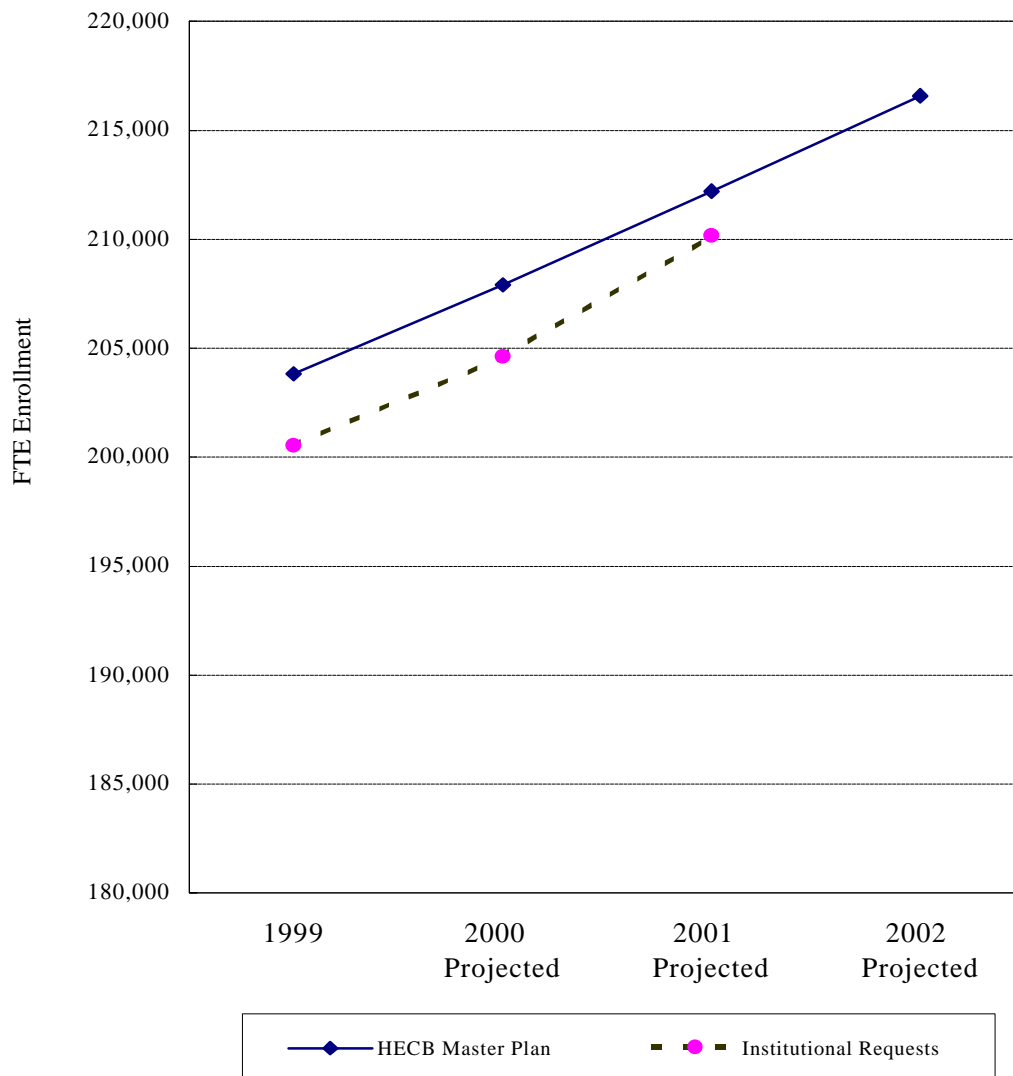


TABLE 1

| SUMMARY: 1999-2001 HIGHER EDUCATION ENROLLMENT PROPOSALS | | | | | |
|---|---|--------------------------------------|--------|---------------------------------|-------------------------------|
| Full-Time Equivalent (FTE) Student Enrollment | | | | | |
| | Current Budgeted Enrollment FY1999 | Proposed Additional Enrollment | | Total New for Biennium | Proposed Biennial Total |
| | | FY2000 | FY2001 | | |
| University of Washington | | | | | |
| Seattle | 31,527 | 450 | 450 | 900 | 32,427 |
| Bothell | 895 | 110 | 190 | 300 | 1,195 |
| Tacoma | 992 | 170 | 230 | 400 | 1,392 |
| UW - Total | 33,414 | 730 | 870 | 1,600 | 35,014 |
| Washington State University | | | | | |
| Pullman | 17,272 | | 500 | 500 | 17,772 |
| Spokane | 442 | 34 | 171 | 205 | 647 |
| Tri-Cities | 754 | - | - | - | 754 |
| Vancouver | 971 | 50 | 100 | 150 | 1,121 |
| WSU - Total | 19,439 | 84 | 771 | 855 | 20,294 |
| Eastern Washington University | 7,739 | - | - | - | 7,739 |
| Central Washington University | 7,446 | 253 | 261 | 514 | 7,960 |
| The Evergreen State College | 3,576 | 70 | 100 | 170 | 3,746 |
| Western Washington University | 10,338 | 350 | 150 | 500 | 10,838 |
| Higher Education Coordinating Board | 50 | - | - | - | 50 |
| Subtotal - Four-year Institutions | 82,002 | 1,487 | 2,152 | 3,639 | 85,641 |
| State Board for Community and Technical Colleges | 118,526 | 2,600 | 3,400 | 6,000 | 124,526 |
| Total - All Higher Education | 200,528 | 4,087 | 5,552 | 9,639 | 210,167 |

COMPARISON OF TOTAL ENROLLMENT REQUESTS WITH HECB GOALS

Projected FY2001 enrollment required to meet HECB enrollment goals FOR 2010:

| | |
|------------------------|---------|
| Four-year institutions | 87,398 |
| Two-year institutions | 124,820 |
| Total | 212,218 |

| | |
|---|---------|
| Difference between institutional proposals and Board goals: | (2,051) |
| | -0.97% |

RECOMMENDED FINANCIAL AID INCREASE FOR THE 1999-2001 BIENNIUM

Included in the budget recommendations for the 1999-2001 biennium is the fiscal impact of a significant policy change in delivery of financial aid to needy students. After over two years of study and consultation with all sectors of higher education, the Board directed staff to initiate rule-making to implement a tuition-based State Need Grant program for the state. In so doing, the Board acknowledged the need for additional fiscal resources to fully implement the program.

The additional costs associated with the changed approach to the State Need Grant program for the 1999-2001 biennium include:

\$40.0 million to provide the revised SNG program to eligible students at 50 percent of the state's median family income (MFI) at current budgeted enrollment levels;

\$3.4 million to provide the revised program to the additional enrollment included in the Board's adopted budget recommendations; and

\$10.7 million to provide the revised program at the increased tuition rates recommended by the Board (based on a cost of \$.96 million per each one percent increase in tuition rates).

Beyond the increased costs for the revised State Need Grant program, the Board also has recommended an increase of \$8 million for the State Work Study program to serve an additional 3,000 students by the end of the biennium. The recommendations also include \$500,000 for the Displaced Homemaker program which will enable that program to serve up to an additional 14,000 persons each year.

Note: Because the ultimate level of funding needed for the State Need Grant program is dependent on legislative decisions on enrollment and tuition levels, the statewide summary table on page 6 includes only the increased cost of serving the current level of students in that program, along with the costs of the State Work Study and Displaced Homemaker programs. In total - \$49.0 million.

RECOMMENDED HIGHER EDUCATION SALARY INCREASES FOR THE 1999-2001 BIENNIUM

One of the statutory responsibilities of the Higher Education Coordinating Board is to review and recommend salary levels for faculty and exempt employees of the state's public higher education institutions, and to indicate the rank of institutional salary levels among peer institutions (RCW 28B.80.350(6)).

Earlier this year, staff reviewed with institutions the status of current faculty salaries compared with their peers across the nation. The results of that review are summarized on Table 2. As indicated, by the end of the current biennium, faculty at all of the state's public higher education institutions will lag the 75th percentile of their respective peer groups.

Similar studies by the University of Washington and Washington State University in recent years have shown a corresponding gap in the salary levels of exempt and other professional staff at those universities. This is a condition most likely shared by other institutions, though explicit studies have not been undertaken at those institutions. A recent survey released by the state Department of Personnel found similar results for classified staff at the institutions.

Failure to maintain market rates for salaries means that state institutions are at a disadvantage for recruitment and retention of the best faculty and staff. At a time of increasing enrollments and consequent need for greater numbers of faculty and staff to serve them, institutions face the prospect of not being able to compete in a highly competitive market place. Turnover, morale, and overall quality all are affected when a college or university loses its best staff to competitive offers of other institutions.

Faced with this problem, all of the state's institutions have designated salary increases as their number-one priority in the next biennium. In September, the four-year institutions presented to the HECB a coordinated proposal for 4.5 percent per-year salary increases for faculty and exempt staff to attain and maintain a competitive status during the coming biennium. The community and technical college system also has made a 4.5 percent salary increase its number one priority.

Following are the Board's salary recommendations for the 1999-2001 biennium:

- (1) In order that current competitive positions not deteriorate further, the Board's Critical Support areas priority includes necessary funding for universities and colleges to address market and merit increases for faculty and all other staff categories at an average 4.5 percent per year, and
- (2) In order that institutions may better recruit and retain faculty, the Board's Essential Support priority includes \$8.0 million for the four-year institutions, as jointly requested, and \$23.0 million for the community and technical colleges to address increments and salary issues related to part-time faculty.

The projected overall cost of (1) is \$106.6 million, and for (2) \$31.0 million.

In their budget requests, four-year institutions and the community and technical colleges proposed various enhancements to their current salary structures. The four-year institutions proposed funding for recruitment and retention pools. The community and technical colleges requested increased funding to begin equalizing part-time faculty salaries positions with their full-time counterparts, providing retirement benefits for some part-time faculty, and funding of faculty increments. It is recommended that institutions be granted sufficient flexibility in their salary appropriations by the Legislature to address these concerns within the funding levels recommended above.

TUITION PROPOSAL FOR THE 1999-2001 BIENNIUM

RCW 28B.80.330(6) directs the Higher Education Coordinating Board to recommend to the Legislature tuition and fee policies and levels based on comparisons with peer institutions.

In 1994, the Board, as directed by the Legislature, completed a comprehensive review of state tuition policies. That review has been updated each biennium as part of the Board's role in helping to shape tuition policies in the state. The 1998 update has recently been completed and will be made available to the Legislature and Governor along with the Board's tuition recommendations.

In 1995 the Legislature abolished the policy of setting tuition as a percentage of the calculated cost of education at Washington universities and colleges. Absent any other policy basis for tuition setting, each session since then it has directed that tuition be increased by a stipulated amount each year; these amount have been about four percent per year each biennium. Appendix A contains a comparison of state tuition levels with institutional peers for last year. Data for the current year will be available upon completion of the currently-underway survey.

In keeping with its statutory responsibility to recommend tuition policies, for the 1999-2001 biennium, the Board recommends the following two-stage tuition policy:

(1) Basic Tuition Increases

The basic tuition paid by all students at the state's public colleges and universities should increase at rates not greater than the three-year average increase in Washington state per capita personal income, as projected by the state Economic and Revenue Forecast Council. For the 1999-2001 biennium these averages currently are forecast to be 4.0 percent and 3.2 percent for the respective years of the biennium.

In the past, tuition at public institutions in the state sometimes has increased at rates far in excess of common measures of inflation, inhibiting the ability of Washington families to afford higher education opportunities. As indicated in the Board's Master Plan, the economic contribution to the state of a more highly educated and trained workforce is substantial, and contributes greatly to the economic and social well-being of the entire state.

So that students' access to higher education and their subsequent contribution to the state not be imperiled by excessive tuition levels, it is the sense of the Board that future basic tuition increases be linked to increases in the per capita personal income in the state as a surrogate measure of students' ability to pay an increased cost of their education.

(2) Conditional Institutional Option Tuition Increases

In addition to the basic tuition increase policy above, the Board proposes institutions and the State Board for Community and Technical Colleges be authorized to increase tuition by *up to* two percent per year for the biennium. The optional tuition increase would allow institutions the ability to address institutionally-established priorities each deems most important, but that may not otherwise be funded by the state.

It is not the intent of the HECB that this optional tuition increases become a perpetual part of the base tuition rate for institutions. Optional tuition increases would *not* carry over at the end of each biennium for which they were initially approved unless re-adopted by an institution. Further, as the Board implements tuition-indexed financial aid, institutions would be required to use some of the proceeds from the optional tuition revenue to maintain the full value of the financial aid being received by students. Institutions would be required to report on the use of optional tuition revenue as part of the budget process each biennium.

If approved by the Legislature for the 1999-2001 biennium, the basic tuition increase proposal would generate an estimated additional \$44.7 million for general operation of the universities and colleges. A further \$23.0 million for high priority activities would result from the optional tuition increase if all universities and colleges were to implement it.

As part of its continuing responsibilities for recommending tuition policies and rates, subsequent to action by the 1999 session of the Legislature, the Board will continue to evaluate the condition of tuition in the state as the 2001 legislative session approaches.

For a copy of the table or appendices, please contact the HECB at (360) 753-7830.